

## Message Text

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8125

C O N F I D E N T I A L SECTION 1 OF 3 CARACAS 3544

E.O. 11762: GDS

TAGS: ECON

SUBJECT: ASSESSMENT OF ECONOMIC ASPECTS OF PRESIDENT  
PEREZ'S ANNUAL REPORT

REF: (A) CARACAS 2934; (B) CARACAS 2931; (C) CARACAS 2805;  
(D) CARACAS 2804

SUMMARY. PRESIDENT PEREZ'S RECENT ANNUAL REPORT TO THE NATIONAL CONGRESS, DELIVERED ON MARCH 12, NOTED MANY EXTRAORDINARY ACHIEVEMENTS IN 1974, INCLUDING A REAL EXPANSION OF GROSS DOMESTIC PRODUCT BY 5.1 PERCENT, A THREE-FOLD INCREASE IN THE BUDGET OVER ITS INITIAL LEVEL, AND A MORE THAN TWO-FOLD INCREASE IN FOREIGN EXCHANGE RESERVES. IN EMBASSY'S VIEW, THESE ACHIEVEMENTS PROVIDED A SOLID BASE FOR THE PRESIDENT'S AMBITIOUS PROGRAMS AT HOME AND ABROAD, BUT THERE ARE UNDERLYING WEAKNESSES IN THE VENEZUELAN ECONOMY WHICH MAY INCREASINGLY ERODE ITS STRENGTH AND DECREASE THE MOMENTUM OF PEREZ'S EFFORTS TO TRANSFORM VENEZUELA'S ECONOMIC AND SOCIAL STRUCTURE.

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1. THE FIRST ANNUAL MESSAGE OF PRESIDENT CARLOS ANDRES PEREZ AND

ACCOMPANYING REPORTS TO CONGRESS PROVIDED A THOROUGH REVIEW OF THE VENEZUELAN ECONOMY AND SOCIO-ECONOMIC DEVELOPMENTS IN 1974 AND A PREVIEW OF GOV PLANS AND POLICIES FOR 1975. THIS MESSAGE SUMMARIZES ECONOMIC HIGHLIGHTS CONTAINED IN THE PRESENTATION TO THE CONGRESS AND PROVIDES AN ASSESSMENT OF THEIR MEANING, INCLUDING IMPLICATIONS FOR RELATIONS WITH THE UNITED STATES. THESE COMMENTS ARE IN ADDITION TO THOSE CONTAINED IN THE REFERENCE MESSAGES WHICH REPORTED ON THE PRESIDENT'S ADDRESS.

2. STATE OF THE ECONOMY. AS ANTICIPATED, PRESIDENT PEREZ PAINTED A POSITIVE PICTURE OF THE ECONOMY IN 1974. WHILE THE VOLUME OF OIL PRODUCTION DROPPED TEN PERCENT, PARTIALLY AS A RESULT OF CONSERVATION, THE REMAINDER OF THE ECONOMY ACHIEVED A GROWTH RATE OF EIGHT PERCENT, RESULTING IN AN OVERALL REAL GROWTH OF 5.1 PERCENT. AGRICULTURAL PRODUCTION INCREASED 7.2 PERCENT; MANUFACTURING 9.5 PERCENT; CONSTRUCTION 2.8 PERCENT; COMMERCE 8.8 PERCENT; FINANCIAL SERVICES 9.0 PERCENT; AND OTHER SERVICES 8.2 PERCENT. ALTHOUGH THE VOLUME OF TRADITIONAL EXPORTS DECLINED NINE PERCENT, PRIMARILY BECAUSE OF THE CUTBACK IN PETROLEUM PRODUCTION, THE VALUE OF TOTAL EXPORTS REACHED \$15 BILLION (AN INCREASE OF 193 PERCENT) AS A RESULT OF THE DRAMATIC INCREASE IN PETROLEUM PRICES. ON THE OTHER HAND, VENEZUELA EXPERIENCED A 60 PERCENT INCREASE IN THE VALUE OF IMPORTS, WHICH TOTALED \$4.5 BILLION. VENEZUELA CONCLUDED 1974 WITH A FAVORABLE BALANCE OF PAYMENTS REFLECTED IN FOREIGN EXCHANGE HOLDINGS OF MORE THAN \$6 BILLION, COMPARED TO \$2.6 BILLION AT THE END OF 1973.

3. BECAUSE OF INCREASED OIL INCOME IN 1974, GOVERNMENT REVENUE WAS NEARLY \$10 BILLION - ALMOST THREE TIMES HIGHER THAN ESTIMATED IN THE ORIGINAL BUDGET. IN ORDER TO REDUCE DOMESTIC INFLATIONARY PRESSURE, THE GOVERNMENT DECIDED TO PLACE HALF OF ITS ADDITIONAL OIL REVENUE, ABOUT \$3 BILLION, INTO THE VENEZUELAN INVESTMENT FUND, WHICH ALREADY HAS COMMITTED ABOUT \$1.7 BILLION IN LOANS TO FOREIGN INSTITUTIONS INCLUDING \$500 MILLION EACH TO THE IDB AND THE IBRD. THE CENTRAL BANK MADE \$540 MILLION AVAILABLE TO THE IMF AND HAS MADE VARIOUS DEPOSITS AND RECIPROCAL CREDITS AVAILABLE TO LATIN AMERICAN COUNTRIES AMOUNTING TO ANOTHER \$378 MILLION. THE GOV ALSO COMMITTED \$100 MILLION TO THE UN EMERGENCY PROGRAM IN 1974. THE GOVERNMENT HAS USED ITS INCREASED REVENUE TO ESTABLISH AN AGRICULTURAL CREDIT FUND AND AN INDUSTRIAL CREDIT FUND, EACH FOR

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BS. 2 BILLION. IN ORDER TO FURTHER REDUCE LIQUIDITY AND THE INFLATIONARY IMPACT OF THE OIL REVENUE, PEREZ SAID HE WOULD ORDER A TEN PERCENT REDUCTION IN CURRENT EXPENDITURES WHICH WOULD PROVIDE AN ADDITIONAL BS. 1.4 BILLION FOR THE VENEZUELAN INVESTMENT FUND.

4. OTHER MEASURES THE GOVERNMENT TOOK TO STIMULATE THE ECONOMY ON THE ONE HAND BUT KEEP INFLATION UNDER CONTROL ON THE OTHER HAND INCLUDED A GENERAL WAGE INCREASE FOR LOWER INCOME WORKERS WHICH

WAS 25 PERCENT FOR THE LOWEST PAID AND PRICE FREEZE FOR NINETY DAYS ON ALL GOODS AND SERVICES, FOLLOWED BY SELECTIVE PRICE REGULATION.

5. PEREZ REFERRED TO THE GROWING OVER-DEPENDENCE OF GOVERNMENT REVENUE ON THE EXTRACTIVE INDUSTRY, WHICH REACHED 87.3 PERCENT IN 1974, AND CITED THE NEED FOR TAX REFORM, WHICH WOULD REDISTRIBUTE INCOME AND CAUSE RICH VENEZUELANS TO HELP FINANCE GOVERNMENT PROGRAMS THROUGH INCREASED INCOME TAXES AND INDIRECT TAXES ON LUXURY ITEMS. HE SAID THAT TAXES WOULD BE COMBINED WITH ENCOURAGEMENT TO USE PRIVATE FINANCES FOR MORE PRODUCTIVE ENDS. HE ALSO ANNOUNCED THAT SOME TYPES OF ADVERTISING EXPENDITURES WOULD NO LONGER QUALIFY AS TAX DEDUCTIBLE, IN ORDER TO REDUCE THE COST OF GOODS FOR BASIC PUBLIC CONSUMPTION.

6. INDUSTRIAL DEVELOPMENT AND PUBLIC WORKS. PRESIDENT PEREZ PROPOSED STRONG MEASURES FOR DECENTRALIZING INDUSTRY INCLUDING THE PROHIBITION OF THE CREATION OF CERTAIN TYPES OF NEW INDUSTRIES IN CARACAS, THE ESTABLISHMENT OF AN INDUSTRIAL DECENTRALIZATION COMMISSION, AND GREATER EMPHASIS ON THE DEVELOPMENT AND USE OF REGIONAL INFRASTRUCTURE.

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8126

C O N F I D E N T I A L SECTION 2 OF 3 CARACAS 3544

7. IN THE FIELD OF PETROCHEMICALS AND OTHER MAJOR INDUSTRIES, THE

PRESIDENT EXPRESSED THE NEED FOR FOREIGN INVESTMENT AND TECHNOLOGY, KEEPING IN MIND THAT THE POLICY OF STATE CONTROL OVER BASIC PRODUCTION WILL CONTINUE AND THAT JOINT VENTURES WILL BE ORGANIZED WITH THE GOVT AS MAJORITY STOCKHOLDER. THE NATIONAL PETROLEUM COUNCIL IS NOW CONSIDERING GRANDIOSE PROJECTS WHICH WILL DOUBLE OR TRIPLE VENEZUELAN PETROCHEMICAL OUTPUT. THE PRESIDENT CONFIRMED PLANS TO INCREASE STEEL OUTPUT FROM ONE TO FIVE MILLION TONS WITHIN THREE YEARS AND TO 15 MILLION TONS WITHIN A DECADE. ALUMINUM PRODUCTION WOULD INCREASE FROM 50,000 TO 300,000 TONS BY 1977. PUBLIC WORKS TO BE UNDERTAKEN WERE ANNOUNCED INCLUDING THE CARACAS SUBWAY, THE FINAL PHASE OF THE GURI HYDROELECTRIC PROJECT, AN ENGINEERING STUDY FOR A DAM ON THE URIBANTE RIVER, A FEASIBILITY STUDY FOR HARNESSING THE CAURA RIVER, A SUBMARINE ELECTRICAL CABLE TO MARGARITA ISLAND, VARIOUS THERMO-ELECTRIC PLANTS AND PRELIMINARY INVESTIGATIONS BY THE NATIONAL NUCLEAR AFFAIRS COMMISSION INTO THE USE OF NUCLEAR ENERGY. REMAINING FOREIGN COMPANIES IN ELECTRIC POWER GENERATION AND DISTRIBUTION WILL BE NATIONALIZED AND INCORPORATED INTO A SINGLE STATE ENTERPRISE WITH NATIONWIDE ELECTRIC POWER RESPONSIBILITIES. AN AMBITIOUS PROGRAM OF HIGHWAY AND PENETRATION ROAD CONSTRUCTION ALONG WITH THE DEVELOPMENT OF NAVIGABLE WATERWAYS AND AN EXPANSION OF RAIL

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FACILITIES DOMINATED THE TRANSPORTATION DEVELOPMENTS PROPOSED.

8. THE PRESIDENT DELINEATED A THEME FOR THE DEVELOPMENT OF STATE-OWNED ENTERPRISES WHICH WOULD GIVE THE PRESIDENT EXTENSIVE POWER IN GOVERNING THE NATION'S BASIC INDUSTRIES. STATE CORPORATIONS WOULD DEAL WITH THE FOLLOWING INDUSTRIES: PETROLEUM, PETROCHEMICALS, METALLURGY, ELECTRICITY, TRANSPORT, COMMUNICATIONS, MANUFACTURING, AGROINDUSTRY, NAVAL CONSTRUCTION, MINING, TOURISM AND FINANCE. THE DIRECTORS OF THE VARIOUS STATE ENTERPRISES WOULD BE APPOINTED AND REMOVED DIRECTLY BY THE PRESIDENT AND WOULD BE MEMBERS OF THE NATIONAL COUNCIL OF STATE SECTORAL CORPORATIONS. THIS ENTITY, IN TURN, WOULD BE DIRECTLY RESPONSIBLE TO THE PRESIDENT.

9. SOCIO-ECONOMIC DEVELOPMENT. PEREZ PROMISED TO GIVE PRIORITY TO RESOLVING VENEZUELA'S URGENT EDUCATION PROBLEMS: ILLITERACY; SHORTAGE OF SKILLS TO MEET THE NATION'S DEVELOPMENT REQUIREMENTS, CONFLICT BETWEEN TEACHERS' UNIONS AND EDUCATION AUTHORITIES, A RETURN OF "ATTITUDES OF PROTEST" AMONG SOME STUDENTS, AND DEFICIENT FACILITIES AND EQUIPMENT. NOTING THE EXTENSIVE MEASURES HIS GOVT HAS ALREADY UNDERTAKEN TO INCREASE ENROLLMENT OF AND REPAIR OF SCHOOL BUILDINGS, PEREZ SAID THE GOVT WILL CONTINUE TO EMPHASIZE THE PARTICIPATION OF THE POOR AND RURAL STUDENTS IN ADVANCED SCIENTIFIC AND TECHNOLOGICAL STUDIES. HE ADDED THAT CONTINGENTS FROM THE MILITARY SERVICES WOULD ALSO BE ENGAGED IN THE PROCESS OF NATIONAL DEVELOPMENT, THROUGH TRAINING IN AGRICULTURAL AND INDUSTRIAL SCIENCES AND THROUGH PARTI-

CIPATION IN THE GRAN MARISCAL DE AYACUCHO SCHOLARSHIP PROGRAM WHICH PROVIDES FOR 10,000 SCHOLARSHIPS MOSTLY ABROAD OVER THE NEXT SEVERAL YEARS.

10. IN ADDITION TO A "REVOLUTION N EDUCATION" PEREZ OUTLINED NEW PROGRAMS OF PUBLIC FINANCING AND GOVT LEADERSHIP TOIMPROVE THE NATION'S HEALTH CARE, HOUSING, EMPLOYMENT, MANPOWER TRAINING, AND AGRICULTURAL DEVELOPMENT. HE EMPHASIZED REPEATEDLY THENEED FOR A FUNDAMENTAL RESTRUCTURING OF BASIC SOCIAL AND ECONOMIC INSTITUTIONS TO OVERCOME THE CONTRADICTION BETWEEN VENEZUELA'S GROWING WEALTH AND THE CONTINUING IMPOVERISHMENT OF LARGE SECTORS OF THE POPULACE. PERZ DEFINED DEVELOPMENT AS " AN ACCEPTABLE LEVEL OF SOCIAL WELL BEIN" FOR THE COMMON MAN. END UNCLASSIFIED.

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11. COMMENT: ALL OUTWARD SIGNS INDICATE THAT VENEZUELA HAD A HIGHLY SUCCESSFUL ECONOMIC YEAR IN 1974 AND THAT PROSPECTS OVER THE MEDIUM TERM ARE EXCELLENT FOR A CONTINUATION OF THE EXTRAORDINARY BOOM IN VENEZUELA'S ECONOMY. THESE FAVORABLE DEVELOPMENTS WERE BASED ALMOST ENTIRELY ON A DRAMATIC IMPROVEMENT IN VENEZUELA'S TERMS OF TRADE DUE TO A FOUR-FOLD INCREASE IN PETROLEUM PRICES IN THE PAST TWO YEARS. VENEZUELA WAS, THEREFORE, EASILY ABLE TO ABSORB A REDUCTION IN ITS PETROLEUM EXPORTS AND EVEN JUSTIFIED THE DECREASE ON CONSERVATION GROUNDS RATHER THAN AS A NATURAL RESULT OF THE CURRENT WORLD OIL GLUT.

12. VENEZUELA'S INCREASED INCOME FROM PETROLEUM HAD AN IMMEDIATE IMPACT ON ALMOST ALL SECTORS OF THE ECONOMY. MONETARY LIQUIDITY INCREASED BY MORE THAN 32 PERCENT IN 1974 AND THIS ALONE WAS SUFFICIENT TO STIMULATE AN INCREASE IN PRODUCTION OF ALMOST ALL TYPES OF GOODS AND SERVICES WHERE EXCESS CAPACITY EXISTED. HOWEVER, IT DID CONTRIBUTE TO INFLATION, AS REFLECTED IN A HIGHER THAN 20 PERCENT INCREASE IN THE GENERAL PRICE INDEX. THE LARGE TRADE SURPLUS PERMITTED THE GOV TO BECOME A SIGNIFICANT CAPITAL EXPORTER AND PROVIDED AN UNDERPINNING FOR THE PRESIDENT'S AGGRESSIVE USE OF FINANCIAL ASSETS IN INCREASING VENEZUELA'S ECONOMIC AND POLITICAL INFLUENCE IN CENTRAL AMERICA, THE CARIBBEAN COUNTRIES, AND THE ANDEAN REGION. EVEN AFTER SETTING ASIDE ONE-THIRD OF THE GOVT'S INCOME FOR FUTURE USE, THE PRESIDENT WAS ABLE TO INCREASE BOTH CURRENT AND CAPITAL EXPENDITURES SIGNIFICANTLY IN ORDER TO PROVIDE RESOURCES FOR ALMOST ANY PRIORITY PURPOSE. WITH FUNDS SET ASIDE THROUGH THE VENEZUELAN INVESTMENT FUND, THE GOV HAS A SUBSTANTIAL FINANCIAL AND FOREIGN EXCHANGE CUSHION TO PROTECT IT FROM ANY SUDDEN EXTERNAL CHANGES.

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8127

C O N F I D E N T I A L SECTION 3 OF 3 CARACAS 3544

13. DESPITE THE ABOVE OUTWARD SIGNS OF ECONOMIC STRENGTH, THE VENEZUELAN ECONOMY HAS UNDERLYING STRUCTURAL WEAKNESSES THAT WILL PROBABLY REAPPEAR IN 1975 AND WILL LIKELY DIMINISH THE NATION'S FAVORABLE ECONOMIC PROSPECTS IN FUTURE YEARS. VENEZUELA'S CURRENT BOOM IS BASED ON EXTERNAL FACTORS LARGELY OUTSIDE THE NATION'S CONTROL. THERE HAS BEEN LITTLE INCREASE IN PRODUCTIVITY OR IN REAL RESOURCES IN RECENT YEARS. IN FACT, PRODUCTIVITY IN VENEZUELA'S BASIC PETROLEUM INDUSTRY HAS BEEN DECLINING AS RESERVES ARE USED UP AND MORE DIFFICULT EXTRACTION METHODS BECOME NECESSARY.

14. IT IS LIKELY THAT VENEZUELA'S VERY FAVORABLE CURRENT TERMS OF TRADE WILL BE ERODED AS PETROLEUM PRICES DECLINE RELATIVE TO IMPORTED GOODS AND SERVICES. THE VENEZUELAN ECONOMY MAY THEREFORE HAVE REACHED A PEAK LEVEL IN 1974 WHICH WILL BE DIFFICULT TO SUSTAIN IN FUTURE YEARS. THERE IS SOME EVIDENCE ALREADY, FOR EXAMPLE, THAT THE GOV MAY HAVE OVER-ESTIMATED INCOME FOR THE 1975 BUDGET. THIS IS A VITAL AND SENSITIVE QUESTION WHICH COPEI PARTY LEADERS HAVE ALREADY SEIZED UPON IN NEEDLING THE GOVT. PRESIDENT PEREZ'S CALL IN HIS MARCH 12 ADDRESS FOR A REDUCTION OF BS 1.4 BILLION IN CURRENT EXPENDITURES IN ORDER TO PROVIDE ADDITIONAL FUNDS FOR THE VENEZUELAN INVESTMENT FUND, IN FACT, CONFIDENTIAL

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MAY BE AN INDIRECT ADMISSION OF GOVT CONCERN ABOUT PROSPECTS FOR THE FUND'S BUDGET. IN CONTRAST TO MANY OIL RICH NATIONS WITH SURPLUS FUNDS, VENEZUELA HAS AN ALMOST IMMEDIATE CAPACITY TO ABSORB ADDITIONAL INCOME. DR JUAN PABLO PEREZ ALFONSO, A HIGHLY VENERATED ELDER STATESMAN BUT SEVERE CRITIC OF CURRENT GOVT POLICIES, HAS RECENTLY LASHED OUT AT THE PEREZ ADMINISTRATION FOR PERMITTING A FACILE INCREASE IN GOVT EXPENDITURES.

15. THE NATIONALIZATION OF THE IRON MINES AND IMMINENT NATIONALIZATION OF THE PETROLEUM INDUSTRY WILL INCREASE THE RISK THAT VENEZUELA WILL FIND ITS ONLY RELIABLE SOURCE OF GOVT INCOME AND FOREIGN EXCHANGE WEAKENED WITHOUT CLEAR PROSPECTS FOR DEVELOPING COMPARABLE ALTERNATIVE SOURCES. EVEN ASSUMING THAT NO TRAUMATIC CHANGES IN THE PETROLEUM INDUSTRY OCCUR, THE GOV ALMOST IMMEDIATELY WILL FACE WORKING CAPITAL REQUIREMENTS AND INVESTMENT NEEDS WHICH WILL CUT DOWN ITS NET TAKE FROM THE INDUSTRY. MOREOVER, VENEZUELA HAS A POOR RECORD IN MANAGING STATE INDUSTRIES. THIS IS READILY ACKNOWLEDGED EVEN BY GOVT LEADERS THEMSELVES. THE PETROCHEMICAL INDUSTRY IS A NATIONAL SCANDAL. EVEN COMPARATIVELY WELL-MANAGED INDUSTRIES SUCH AS THE STEEL MILL AND OTHER SUBSIDIARIES OF THE GUAYANA CORPORATION APPEAR TO HAVE THE BENEFIT OF SUBSTANTIAL GOVT SUBSIDIES. UNDER THE BEST OF CIRCUMSTANCES, THE TRNSITION OF THE PETROLEUM INDUSTRY TO STATE MANAGEMENT IS LIKELY TO PRESENT SIGNIFICANT DIFFICULTIES.

16. THE AMBITIOUS PLANS OF THE PEREZ ADMINISTRATION FOR DEVELOPMENT OF BASIC INDUSTRIES WILL ABSORB LARGE QUANTITIES OF CASH AND OTHER RESOURCES - PERHAPS MORE THAN VENEZUELA CAN EXPECT TO HAVE AVAILABLE IN THE NEXT FEW YEARS. VENEZUELA CAN EXPECT TO HAVE AVAILABLE IN THE NEXT FEW YEARS. VENEZUELA HAS SUBSTANTIAL NATURAL ADVANTAGES IN DEVELOPMENT OF STEEL AND ALUMINUM PRODUCTION AND IN PETROCHEMICALS, BUT THESE CAPITAL INTENSIVE AND HIGHLY SOPHISTICATED INDUSTRIES WILL REQUIRE A LEVEL OF MANAGERIAL AND TECHNICAL SKILL WHICH IS VERY SCARCE. IT MAY BE TAKEN FOR GRANTED THAT VENEZUELA WILL BE ABLE TO SUPPLY ITS OWN REQUIREMENTS IN SUCH BASIC INDUSTRIAL FIELDS WITHIN A RELATIVELY SHORT PERIOD BUT THE DEVELOPMENT OF SIGNIFICANT EXPORT MARKETS WILL REQUIRE A LEVEL OF EFFICIENCY WHICH WILL BE DIFFICULT TO ATTAIN. BEYOND THESE FAVORABLE FIELDS FOR INDUSTRIAL DEVELOPMENT, IT IS

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HIGHLY QUESTIONABLE WHETHER VENEZUELA CAN DEVELOP INDUSTRIES SUCH AS SHIPBUILDING AND AIRPLANE ASSEMBLY WHICH WILL BE ABLE TO PROSPER

WITHOUT SUBSTANTIAL SUBSIDIES.

17. THE EMBASSY BELIEVES THAT THE ABOVE WEAKNESSES IN THE VENEZUELAN ECONOMY WILL NOT SERIOUSLY INTERFERE WITH PRESIDENT PEREZ'S PLANS AND PROGRAMS IN 1975, BUT THEY MAY FORCE THE GOVERNMENT TO ADOPT A MORE CAUTIOUS ATTITUDE TOWARDS COMMITMENTS AT BOTH THE DOMESTIC AND FOREIGN LEVELS. THE VENEZUELAN INVESTMENT FUND IS LIKELY TO BE AMONG THE FIRST INSTITUTIONS TO FEEL THE EFFECTS OF ANY RETRENCHMENT IN GOVERNMENT PLANS. THE FUND ALREADY IS BEING SUBJECTED TO INCREASING CRITICISM FROM OPPOSITION PARTIES FOR COMMITTING FUNDS ABROAD WHICH THESE GROUPS BELIEVE MIGHT BETTER BE USED IN VENEZUELA. THE GOVERNMENT MAY ALSO FIND THAT ITS GOALS OF INCREASING ECONOMIC DIVERSIFICATION AND INDEPENDENCE REMAIN ELUSIVE. IT MAY THEREFORE BE FORCED TO SEEK WAYS TO ACCELERATE DEVELOPMENT OF ITS REMAINING PETROLEUM RESOURCES, INCLUDING ESPECIALLY THE ORINOCO HEAVY OIL BELT.

18. IF VENEZUELA BEINGS TO EXPERIENCE ECONOMIC DIFFICULTIES, THERE IS A RISK THAT THE US MAY BECOME A NATURAL SCAPEGOAT FOR ANY SIGNIFICANT ADVERSE CHANGE IN THE ECONOMIC CLIMATE OR SERIOUS PROGRAMS THE GOVERNMENT MAY FACE. THIS WOULD ALMOST CERTAINLY BE THE CASE IF THE ATMOSPHERE OF CONFRONTATION WHICH PREVAILED IN LATE 1974 AND EARLY 1975 WERE TO CONTINUE. THE EMBASSY BELIEVES, HOWEVER, THAT THERE IS AT LEAST AN EQUAL CHANCE THAT RELATIVE ECONOMIC ADVERSITY WOULD PROVIDE AN OPPORTUNITY FOR THE UNITED STATES TO RELATE MORE CLOSELY TO VENEZUELA'S ASPIRATIONS AND TO IMPROVE RELATIONS WITH THIS COUNTRY. VENEZUELA'S AMBITIOUS DEVELOPMENT PLANS ARE LIKELY TO REQUIRE GREATER ACCESS TO U.S. COMMERCIAL MARKETS AND INCREASING TRANSFER OF SOPHISTICATED TECHNOLOGY AND IN THE LONG TERM EVEN FOREIGN CAPITAL, PROVIDING A NECESSARY ROLE FOR U.S. INDUSTRIAL AND FINANCIAL INSTITUTIONS. ASENCIO

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